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August 2, 2007

VIA ELECTRONIC FILING

Marlene H. Dortch, Secretary
Office of the Secretary
Federal Communication Commission
c/o Natek, Inc.
236 Massachusetts Avenue, NE
Suite 110
Washington, DC 20002

Re: *Iowa Telecom Petition for Forbearance Under 47 U.S.C. 160(c) from the Universal Service High-Cost Loop Support Mechanisms, WC Docket No. 05-337 (filed May 8, 2006); Iowa Telecom Petition for Interim Waiver of the Commission's Universal Service High-Cost Loop Support Mechanisms, WC Docket No. 05-337 (filed May 8, 2006).*

Dear Secretary Dortch:

Attached please find a corrected version of the August 1, 2007 Vermont, Maine and Nebraska filing concerning Iowa Telecommunications Services, Inc. ("Iowa Telecom") presentations on July 25, July 26, and July 27, 2007. This version contains the correct Exhibit 1, the States' May 31, 2007 *ex parte* filing.

I apologize for any inconvenience related to this matter.

Respectfully submitted,


Linda Street CPS
Legal Secretary

cc: Chairman Kevin Martin
Commissioner Jonathan Adelstein
Commissioner Michael Copps
Commissioner Robert McDowell
Commissioner Deborah Taylor Tate
Amy Bender
Scott Deutchman
Aaron Goldberger

John Hunter
Ian Dillner
Katie King
Jeremy Marcus
Jennifer McKee
Tom Navin
Gary Siegel
Don Stockdale

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Dear Secretary Dortch:

This letter responds to the *ex parte* presentations made by Iowa Telecommunications Services, Inc. ("Iowa Telecom") on July 25, July 26, and July 27, 2007.¹ The presentations concerned the above matters, in which Iowa Telecom has asked the FCC to make it eligible for high-cost universal service support based on its network's forward-looking cost.² If the FCC granted the requested relief, Iowa Telecom would receive \$22.2 million of new support, Qwest would receive \$6.3 million of new support,

¹ See Letter from Mimi Weyforth Dawson, Wiley Rein, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 05-337 (dated July 26, 2007); Letter from Mimi Weyforth Dawson, Wiley Rein, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 05-337 (dated July 27, 2007); Letter from Mimi Weyforth Dawson, Wiley Rein, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 05-337 (dated July 30, 2007) ("Iowa Telecom *Ex Partes*").

² See *Iowa Telecom Petition for Forbearance Under 47 U.S.C. 160(c) from the Universal Service High-Cost Loop Support Mechanisms*, CC Docket No. 96-45, WC Docket No. 05-337 (filed May 8, 2006), at 1 ("Forbearance Petition"); *Iowa Telecom Petition for Interim Waiver of the Commission's Universal Service High-Cost Loop Support Mechanisms*, WC Docket No. 05-337 (filed May 8, 2006), at 1 ("Waiver Petition").

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and the Universal Service Fund (“Fund” or “USF”) would increase by \$7.7 million.³ The net total decrease to current recipients, therefore, would be \$20.8 million.⁴

On May 31, 2007, the Vermont, Maine, Nebraska, Kentucky, and South Dakota state commissions opposed Iowa Telecom’s request on a number of legal, policy, and financial grounds.⁵ Among other things, the states showed the following USF support losses by state if the FCC granted Iowa Telecom’s petitions:⁶

State	Current Support	Change	New Support	Support % Change
AL	\$44,248,705	-\$4,350,283	\$39,898,421	-10%
KY	\$16,958,529	-\$3,512,067	\$13,446,462	-21%
ME	\$1,915,023	-\$1,319,440	\$595,583	-69%
MS	\$199,245,840	-\$4,883,755	\$194,362,085	-2%
MT	\$20,866,596	-\$791,165	\$20,075,431	-4%
NE	\$10,773,160	-\$1,869,036	\$8,904,124	-17%
SD	\$2,626,867	-\$718,123	\$1,908,743	-27%
VT	\$9,929,071	-\$777,200	\$9,151,871	-8%
WV	\$26,962,375	-\$1,978,708	\$24,983,667	-7%
WY	\$14,083,508	-\$565,253	\$13,518,254	-4%
Total	\$347,609,672	-\$20,765,031	\$326,844,642	-6%

Iowa Telecom apparently agrees with these calculations, because it has not filed any rebuttal.

The public record of Iowa Telecom’s recent presentations suggests that Iowa Telecom believes it should receive more support because it serves many communities with very small populations.⁷ A review of the submitted data suggests that the company does serve an area with an uncharacteristically large number of small communities. However, this is also true, in varying degrees, of many nonrural LECs across the country, some of whom would be harmed by the relief that Iowa Telecom seeks in these petitions.

³ See Waiver Petition, App. at 20-21.

⁴ \$20.8 = (\$22.2 + \$6.3) - \$7.7.

⁵ See Letter from Shana Knutson, Legal Counsel, Nebraska Public Service Commission, Joel Shifman, Senior Advisor, Maine Public Utilities Commission, Rolayne Ailts Wiest, Commission Attorney, South Dakota Public Utilities Commission, George Young, Esq., Associate General Counsel, Vermont Public Service Board, Christopher Campbell, Telecommunications Director, Vermont Department of Public Service, Amy E. Dougherty, Counsel for Kentucky Public Service Commission, Elisabeth H. Ross, Birch, Horton, Bittner & Cherot, Attorney for Vermont Public Service Board, WC Docket No. 05-337 (dated May 31, 2007), Exh. I (“States’ Opposition”).

⁶ See States’ Opposition at 3.

⁷ The filing does not explain how Iowa Telecom has defined “community.”

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While Iowa Telecom's data may suggest an underlying flaw or imbalance in the Commission's universal service programs, the data do not justify reducing support for other carriers that serve other rural areas.

Public notice of Iowa Telecom's new data appeared only on July 30, 2007, one week before the Commission faces a statutory deadline for decision on the forbearance petition. In the remaining time available, we have not been able to develop exactly analogous information for other rural study areas, but we have been able to draw on existing data developed in 2002 for the FCC's Synthesis Cost Model. We examined the size profiles of some of the nonrural study areas that would be harmed by granting Iowa Telecom's petition. The following table shows the percentage of wire centers in several affected states with fewer than 2,000 households:

Study Area	Percentage of Wire Centers With Fewer Than 2,000 Households
Verizon Vermont	70%
Verizon Maine	55%
Qwest - Nebraska	58%
Windstream Communications (Nebraska)	91%

These data show that the undersigned three states, which would be harmed by Iowa Telecom's petition, are also highly rural, and have a preponderance of small wire centers. Iowa Telecom's filing offers no explanation as to why it would serve the public interest to reduce support to other rural areas that happen to be served by larger, so-called "nonrural" carriers. Making such a funding shift is particularly dangerous since Iowa Telecom has not shown that its customers have higher rates than customers in these three states.

The filings suggest that Iowa Telecom made a second argument: that it should receive support similar to that received by other carriers. The filings show that other "rural" incumbent LECs in Iowa receive substantial support from existing universal service mechanisms. They also show that Iowa Telecom receives less support, on a company-average, per-line basis, than other mid-sized ILECs.⁸ These arguments present several problems.

First, there is no legal basis to conclude that Iowa Telecom should receive a per-line amount of support equal to that of other ILECs in Iowa. It is true that Iowa has many rural companies, and most of these receive substantial support. However, there are valid reasons why a rural company, in Iowa or elsewhere, does not receive support, notably that the company does not have high costs. Iowa Telecom previously reported that it

⁸ Iowa Telecom *Ex Partes* at 1.

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acquired an “under-invested” network in 2000.⁹ It has still not explained why, despite serving a very dispersed population, its loop cost per line is not high enough to make it eligible for High-Cost Loop Support.

Second, Iowa Telecom’s comparison with other mid-sized companies overlooks other important factors. Many of these mid-sized companies serve rural areas, as does Iowa Telecom. However, Iowa Telecom’s table aggregates data by holding company. One cannot make valid comparisons from such aggregated data because there is no reason to believe the companies, aggregated to the holding company level, face similar costs. It is reasonable to compare support levels across similar geographic areas served by various carriers, but there is no valid policy reason to think that each holding company is entitled to some minimum share of the total support. Moreover, the undersigned states are aware that some of the comparison companies shown have invested heavily in their rural networks and have provided broadband to all or nearly all of their customers. This factor alone may explain the differences in the holding company results.

In reality, Iowa Telecom is subject to the same rules as all the other rural ILECs. The FCC’s rules for the High-Cost Loop program require small companies to invest in infrastructure *before* they qualify for support. This is an appropriate incentive that has produced significant investment in rural areas during the last decade. Iowa Telecom’s *ex parte* filing shows no basis to alter this policy and allow Iowa Telecom to receive support *before* it invests.

In sum, there still is no rational basis for granting Iowa Telecom’s petition. The argument regarding a rural customer base fails to explain why rural customers elsewhere should be harmed. The comparison with other carriers fails to note important differences, such as investment level. We also note that the recent filings do not demonstrate either a need for support to keep rates reasonable for its customers, or a promise that these unprecedented benefits, if granted, would assist consumers. We continue to oppose Iowa Telecom’s petitions.

Sincerely,

⁹ See Forbearance Petition at 4; Waiver Petition at 4.

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May 31, 2007

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Dear Secretary Dortch:

On February 13, 2007, Iowa Telecommunications Services, Inc. ("Iowa Telecom") filed under seal an *ex parte* report titled "Evaluation of the Impact of Iowa Telecom's Participation in the Federal Non-Rural High Cost Support Program" and corresponding model data runs. On March 21, 2007, Iowa Telecom filed an *ex parte* submitting documents requested by the FCC staff regarding inputs to the HCPM model. And, on March 27, 2007, Iowa Telecom filed another *ex parte* attaching work papers and intermediate files generated through its run of the HCPM model. Iowa Telecom requested confidential treatment of these supplemental documents pursuant to its letter to the FCC on February 13, 2007.

Using public information provided in Iowa Telecom's Petitions and other public sources, the undersigned state utility commissions and related state agencies ("state utility commissions") have developed independent estimates of the effects of granting Iowa Telecom's request. We submit this letter to file information on the record concerning the impact of granting Iowa Telecom's Petitions.

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Iowa Telecom has asked the FCC to permit it to be eligible for high cost universal service support based on its network's forward-looking economic costs until the FCC adopts a final successor regime to the Rural Task Force Order that allows Iowa Telecom to receive loop support based on its network's forward-looking cost.¹

The undersigned state utility commissions oppose both Iowa Telecom's Forbearance and Waiver Petitions. Further, the undersigned state utility commissions find:

- Granting the Petitions will make support insufficient for other non-rural carriers to ensure their rates are reasonably comparable to urban rates nationwide, and are affordable;
- If the FCC decreases funding to the ten states receiving support, it will have much greater difficulty complying with the 10th Circuit Court of Appeals' remand order in *Qwest v. FCC*; ²
- Granting the Petitions is not necessary to cure any conflict in the way Iowa Telecom is regulated – use of forward-looking cost is not a universal service goal in itself;
- Granting the Petitions will not advance any universal service goal – Iowa Telecom has not shown that its rates are at risk of becoming unaffordable or not reasonably comparable;
- Granting the Petitions will set a harmful precedent – it will open the doors for other carriers that have higher forward-looking costs than embedded costs to request similar relief; and
- If the FCC grants the Petitions, it should in no way reduce existing support to non-rural carriers – their circumstances have not changed at all, and Iowa Telecom has not demonstrated that its new level of support will be sufficient to ensure affordable and reasonably comparable rates.

A. Granting the Petitions Will Make Support Insufficient for Other Non-Rural Carriers

The undersigned state utility commissions do not have access to any of the model-related information that Iowa Telecom filed. Therefore, to develop independent

¹ See Iowa Telecom Petition for Forbearance Under 47 U.S.C. 160(c) from the Universal Service High-Cost Loop Support Mechanisms, CC Docket No. 96-45, WC Docket No. 05-337 (filed May 8, 2006), at 1 ("Forbearance Petition"); Iowa Telecom Petition for Interim Waiver of the Commission's Universal Service High-Cost Loop Support Mechanisms, WC Docket No. 05-337 (filed May 8, 2007), at 1 ("Waiver Petition").

² *Qwest Communications Int'l Inc. v. FCC*, 398 F.3d 1222 (10th Cir. 2005) ("*Qwest*").

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estimates of the effects of granting Iowa Telecom's request we have used public information provided in Iowa Telecom's Petitions and from other public sources.

Iowa Telecom stated that if the FCC grants its Petitions, it will receive \$22.2 million of support, Qwest will receive \$6.3 million, and the net Fund impact will be \$7.7 million.³ The net total decrease to current recipients therefore will be \$20.8 million.⁴ From this data, we reverse engineered the distribution mechanism to determine how much USF support non-rural carriers will lose in each state. To reduce support by \$20.8 million, it is necessary to increase the benchmark by \$0.203 per line per month. We developed state-specific support estimates on this basis showing how much support each state will lose if the FCC grants Iowa Telecom's Petitions. Figure 1 summarizes the results.⁵

State	Current Support	Change	New Support	Support % Change
AL	\$44,248,705	-\$4,350,283	\$39,898,421	-10%
KY	\$16,958,529	-\$3,512,067	\$13,446,462	-21%
ME	\$1,915,023	-\$1,319,440	\$595,583	-69%
MS	\$199,245,840	-\$4,883,755	\$194,362,085	-2%
MT	\$20,866,596	-\$791,165	\$20,075,431	-4%
NE	\$10,773,160	-\$1,869,036	\$8,904,124	-17%
SD	\$2,626,867	-\$718,123	\$1,908,743	-27%
VT	\$9,929,071	-\$777,200	\$9,151,871	-8%
WV	\$26,962,375	-\$1,978,708	\$24,983,667	-7%
WY	\$14,083,508	-\$565,253	\$13,518,254	-4%
Total	\$347,609,672	-\$20,765,031	\$326,844,642	-6%

Figure 1: USF support losses by State if the FCC grants Iowa Telecom's Petitions

The reductions will affect every non-rural ILEC in each of these ten states. It will also affect every competitive ETC serving non-rural ILEC areas because USAC currently divides these total support amounts between non-rural ILECs and CETCs.

As Figure 1 shows, granting the Petitions will make support insufficient for the non-rural carriers that currently receive USF funds under the non-rural mechanism. Some states will lose a high percentage of their existing support. Maine will lose almost all of its support – a full 69%. South Dakota and Kentucky will lose approximately one fourth of their support; South Dakota will lose 27% and Kentucky will lose 21%. In

³ See Waiver Petition, App. at 20-21.

⁴ $\$20.8 = (\$22.2 + \$6.3) - \7.7 .

⁵ See Appendix A for a detailed computation.

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other states, although the percentage losses are more modest, total dollar losses will still be significant. Mississippi will lose \$4.9 million and Alabama will lose \$4.4 million.

If the FCC does decrease funding to the ten states now receiving support, it will have much greater difficulty complying with the 2005 remand from the 10th Circuit Court of Appeals in *Qwest Communications v. FCC*.⁶ The Court found that the FCC had misinterpreted Section 254 of the Act and failed to demonstrate that its support to non-rural carriers was sufficient.⁷ The Court may view unkindly an FCC action that reduces support to these carriers without addressing legal issues set forth in that two year old remand order.

B. Granting the Petitions Will Not Advance Any Universal Service Objectives

Iowa Telecom suggests that there is a conflict in the way it is regulated – it is treated as a rural carrier for purposes of High Cost Loop support, and a price cap carrier for purposes of interstate access charges. Yet it never explains why these differences create a problem, or why it should receive support under the non-rural mechanism to address its “unique” regulatory status. Iowa Telecom has not demonstrated that granting the petitions will advance any universal service objectives, such as making its rates reasonably comparable or affordable for rural subscribers.

In its Petitions, Iowa Telecom claims its “unique” regulatory circumstance justifies increasing its support under the non-rural mechanism.⁸ Iowa Telecom says it is “the only pure price cap carrier in the nation for which eligibility for high cost loop support is determined exclusively based upon its embedded cost.”⁹ While this may be factually correct, Iowa Telecom never satisfactorily explains why the manner in which its rates are set has any bearing on how its federal universal service support should be calculated. The logical disconnect is particularly noticeable for state regulation. Iowa Telecom never explains why the State of Iowa’s decision to use a price cap mechanism to set Iowa Telecom’s intrastate rates is even relevant to federal universal service support, much less a critical fact that makes a waiver necessary.

Iowa Telecom incorrectly suggests that the use of forward-looking costs is an end in itself for universal service. It argues that forward-looking cost is the “cornerstone” of universal service reform because it “better approximates economic cost,” “rewards

⁶ See *Qwest*, 398 F.3d 1222.

⁷ See *id.* at 1237.

⁸ See Waiver Petition at 4.

⁹ *Id.*

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efficiency”, and “sends proper price signals.”¹⁰ It asks for relief so that it can “transition to the non-rural high cost support mechanism.”¹¹

Using forward-looking costs is not a goal of Section 254. Iowa Telecom’s sources of authority on forward-looking cost are outdated and inapplicable. It cites to ten-year-old statements from the Joint Board on the desirability of using forward-looking cost.¹² It also overstates the FCC’s actions in 2001 regarding the Rural Task Force Order.¹³ In that order the FCC expressly exempted rural carriers from having their support based upon forward-looking cost. Iowa Telecom incorrectly reports that this decision was set to expire in June 2006.¹⁴ Although the Rural Task Force Order did discuss a plan for the ensuing five years, it did not establish any sunset provision.¹⁵ In actuality, the rules established by that order remain in effect today and will continue in effect until the FCC formally replaces them.¹⁶

Times and policies have changed as well. Chairman Martin has expressed an interest in employing reverse auctions as potentially a better means of awarding support.¹⁷ Moreover, although the Rural Task Force Order anticipated further refinements to the 1999 Synthesis Model, the FCC has allowed that model to become obsolete. Even basic maintenance of the model has been neglected, and there has been no significant effort to resolve more difficult issues such as the treatment of special access lines. The problems have become so severe that the FCC staff has not even run the Synthesis Model for support purposes since 2004. Consequently, non-rural carriers today receive support calculated using old model runs based on even older data. Even if

¹⁰ See Forbearance Petition and Waiver Petition, App. at 4.

¹¹ See Forbearance Petition at 3; Waiver Petition at 6.

¹² See Forbearance Petition at 3 (citing *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd. 8776, 8888, ¶ 199 (1997)); see also Waiver Petition at 3.

¹³ *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, 16 FCC Rcd. 11,244, (2001) (“*Rural Task Force Order*”).

¹⁴ Waiver Petition at 3.

¹⁵ *Rural Task Force Order* at 11,256, ¶ 25.

¹⁶ See 47 C.F.R. § 36.631(c), (d).

¹⁷ *In the Matter of High-Cost Universal Service Support, Federal State Joint Board on Universal Service*, WC Docket No. 05-337, CC Docket No. 96-45, Recommended Decision, FCC 07J-1, (rel. May 1, 2007) (“*Recommended Decision*”), Statement of Chairman Kevin J. Martin (“I believe that reverse auctions could provide a technologically and competitively neutral means of controlling the current unsustainable growth in the fund and ensuring a move to most efficient technology over time”); see also, Responses from FCC Chairman Kevin J. Martin to Honorable Edward Markey, Chairman, Subcommittee on Telecommunications and the Internet, responding to Chairman Markey letter of April 2, 2007 (“I believe that reverse auctions could provide a technologically- and competitively-neutral means of controlling fund growth and ensuring a move to most efficient technology over time”).

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some federal policy makers once had high hopes for the cost model, its outputs are no longer reliable.

Granting the Petitions will not demonstrably advance the goals of making rates reasonably comparable and affordable under Section 254(b)(1) and (3). Iowa Telecom argues that obtaining support under the non-rural mechanism is necessary for it to provide quality services,¹⁸ but it does not satisfactorily explain why its need is greater than any other rural carrier that currently happens to be ineligible for support. For example, Iowa Telecom suggests that it cannot raise its rates,¹⁹ but it never actually provides specific information about its current rate levels. Thus, the petitions fail to demonstrate that Iowa Telecom's rates fail to be reasonably comparable and affordable.

Iowa Telecom claims that granting the Petitions will create incentives not only for it to invest in its rural Iowa properties, but also for competitors to make similar investments.²⁰ These claims are exaggerated and in some cases incorrect.

Iowa Telecom's claims regarding its own future investment incentives are unsupported and incorrect. How will Iowa Telecom spend its additional support? The company makes no specific representations or commitments, other than to suggest that if it gets more support, it might spend some of that money on additional investment.²¹

Second, Iowa Telecom argues, but does not demonstrate, that it cannot upgrade its rural facilities without receiving added funding. Iowa Telecom reports that it acquired an "under-invested" network in 2000.²² However, the company never explains why, seven years later, it has not increased its capitalization and upgraded its network. It does not explain why it cannot raise additional capital today in the traditional way, from investors and banks. Universal service support should not be used to supplant the normal process of raising capital, unless that support is necessary to provide comparable and affordable rates.

Third, contrary to Iowa Telecom's assurances, granting the Petitions will actually *reduce* the company's incentives to invest. Under the High Cost Loop program which pays support based on a carrier's own embedded costs, Iowa Telecom can increase its loop costs and become eligible for support. This is particularly true, if, as Iowa Telecom asserts, serving rural Iowa is inherently a "high cost" enterprise.²³ In contrast, placing Iowa Telecom on a forward-looking model will actually *eliminate* the existing incentives

¹⁸ See Forbearance Petition at 5-7; Waiver Petition at 5.

¹⁹ See Forbearance Petition at 5, 6.

²⁰ See Forbearance Petition at 5-7; Waiver Petition at 3.

²¹ See Forbearance Petition at 6 (increased federal funding "would substantially increase the likelihood" that Iowa Telecom and its competitors would "continue to invest").

²² See Forbearance Petition at 4; Waiver Petition at 4.

²³ See Waiver Petition at 4-5.

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for investment. Once Iowa Telecom is on a model-based support mechanism, its subsequent investment, or lack thereof, would not affect its universal service support levels.

In some states, incentives created by the High Cost Loop program have actually been a major factor driving broadband and even fiber development. In these states, rural carriers who receive High Cost Loop support are provisioning networks that allow these carriers to offer DSL service to 90% or more of their customers. Non-rural carriers, whose universal service support is based on a forward-looking cost model, often lag far behind.

Iowa Telecom also argues that granting the Petitions will increase competitors' investment in rural facilities.²⁴ Presumably, Iowa Telecom is arguing that giving it more support will raise its per-line support level. Under the Identical Support Rule, that would automatically raise the support level for competitors, thereby creating entry and investment incentives. In sum, Iowa Telecom is arguing that its competitors will invest more if Iowa Telecom receives more support.

This argument has some factual basis, but it is too broad and should be rejected. The Identical Support Rule does ensure that competitors receive more money whenever the incumbent's support level is increased. But this is true for all support increases, given for any reason. Even a random increase in ILEC support would also benefit competitors and arguably create incentives for entry and investment.²⁵ Before the Commission considers any secondary benefits to competitors, it should first determine that the support requested by Iowa Telecom is well tailored to meet Section 254's goals.

The Joint Board is currently conducting a comprehensive review of the universal service issues including whether rural and non-rural carriers should continue to receive support under different mechanisms, and how competitive ETCs should be supported. While this review is pending, it is not appropriate for the FCC to grant a waiver or forbearance from existing rules. Granting the Petitions will create more vested rights and make the already difficult task facing the Joint Board and the FCC even more complex.

C. Granting the Petitions Will Set a Harmful Precedent

Granting the Petitions will create a harmful precedent that could lead to many more claims. USAC data shows that 269 rural companies do not receive any High Cost Loop support. Many of these companies might have higher forward-looking costs than

²⁴ See Forbearance Petition at 5-6; Waiver Petition at 5.

²⁵ Iowa Telecom fails to mention that it could also improve its competitors' investment incentives without any forbearance or waiver. Investment incentives for Iowa Telecom's competitors would also improve if Iowa Telecom simply upgraded its own network with its own capital and became eligible for High Cost Loop support.

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embedded costs. If the FCC grants relief to Iowa Telecom, many of these companies might file similar petitions.

The risks are not inconsequential. This class of carriers has a total line count of 11.9 million lines. It includes several sizeable study areas, including two with more than a million lines each and 23 companies (including Iowa Telecom) with 100,000 lines or more. If more petitions are filed and the FCC must grant them based on an Iowa Telecom precedent, the problems identified above will multiply. Non-rural carriers will lose even more of their existing support, and the task of reform will become even more complicated.

Moreover, Iowa Telecom's demand for relief based on its "unique" regulatory status is misplaced. It is not true that price caps and forward-looking cost models somehow belong together²⁶ or that being regulated under price caps increases the desirability of using forward-looking cost as the basis for support. The form of Iowa Telecom's rate regulation, in either jurisdiction, is irrelevant to whether it should take support based on the rural or non-rural mechanism.

Federal price cap regulation did serve as a dividing tool for some universal service programs that arose from interstate access reforms. Interstate Common Line Support is today provided to interstate rate of return carriers, and Interstate Access Support is provided to interstate price cap carriers. However, that distinction is irrelevant, because the support at issue here has nothing to do with interstate access payments. Rather, the support Iowa Telecom requests is intended to make *intrastate* rates comply with Section 254 of the Telecom Act.

D. If the FCC Grants the Iowa Telecom Petitions, Existing Non-Rural Support Should Not Be Reduced

Even if the FCC grants the Iowa Telecom Petitions, it should not reduce the existing support levels for non-rural carriers. The FCC does not have any sound policy reason to decrease that support, and it should not blindly apply a mathematical mechanism outside the context in which it was originally intended to be used.

Here, Iowa Telecom essentially seeks to have the FCC eliminate tens of millions of dollars of support to other carriers. Nothing in the circumstances of those affected carriers has changed in any way. To reduce their support now because a Petition from Iowa Telecom was approved would risk providing insufficient support to those carriers, and such an action has no sound policy basis.

As discussed above, Iowa Telecom anticipates reduced support to other carriers. This occurs because treating Iowa Telecom as a non-rural carrier would increase the "benchmark." The benchmark is set using a mathematical procedure that automatically

²⁶ See Waiver Petition at 4 (current mix of programs creates "incompatible patchwork").

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follows the cost distribution among non-rural carriers. An increased benchmark could have two causes. First, classifying Iowa Telecom as a non-rural company may raise the national average cost among non-rural carriers. Alternatively, it may raise the standard deviation. Increasing either parameter, or both, would increase the benchmark and reduce support for current recipients.

When this mathematical mechanism was established, it was anticipated that it would reflect annual changes to cost. There was no expectation, however, that this procedure would apply when changes were made to the set of non-rural carriers. The FCC should not blindly apply the existing mathematical mechanism outside its original context, particularly when it places at risk the sufficiency of support to other carriers.

Moreover, even if the Commission grants the Petitions, before it raises the benchmark and reduces existing support, it must make specific factual findings that the new levels of support will be sufficient to ensure affordable and reasonably comparable rates under Section 254. Iowa Telecom's Petition does not offer any factual basis for the FCC to make such a determination.

Moreover, it is difficult to see how the Commission could make such findings without first resolving the issues remanded to it in 2005 by the Tenth Circuit. At the least, failure to resolve those issues should be an absolute bar to increasing the comparability benchmark and reducing support to existing recipients. At most, the relief sought by Iowa Telecom may be legally beyond reach until the Commission first resolves the underlying definitional and conceptual issues that were remanded in 2005.

Sincerely,

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APPENDIX A

Study of Effect of Iowa Telecom Petition on Nonrural Model-Based Support

Parameters for New Support:		Effect on Benchmark and Per-line Support:	
ITS estimated support	\$ 22,200,000	Original	\$ 28.129
Qwest estimated support	\$ 6,300,000	New	\$ 28.332
Total support increase	\$ 28,500,000	Bench change	\$ 0.203
Estimated fund impact	\$ 7,700,000	Support change	\$ (0.155)
Reduction for other recipients	\$ (20,800,000)		
Current support	\$ 347,644,642		
New support	\$ 326,844,642		
Calculated support	326,844,642		
Error	0		

Current Support												Iowa Telecom Support		
Summary of Cost Data						Benchmark		Benchmark		Benchmark				
						\$ 28.13		\$ 28.332		\$ 28.332				
						Federal Pay %		Federal Pay %		Federal Pay %				
						76%		76%		76%				
State	Total Annual Cost	Model Switched Lines	State Avg. Cost	Reported Switched Lines	\$ /Line / Mo.	Monthly Support	Annualized Support	\$ /Line / Mo.	Monthly Support	Annualized Support	Support Change	Support % Change		
AK	\$32,254,836	132,711	\$ 20.25	125,145	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
AL	\$783,130,623	2,161,086	\$ 30.20	2,344,467	\$1.57	\$3,687,392	\$44,248,705	\$ 1.42	\$ 3,324,868	\$ 39,898,421	\$ (4,350,283)	-10%		
AR	\$307,999,804	962,186	\$ 26.98	865,447	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
AZ	\$678,157,919	2,704,759	\$ 20.89	2,116,184	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
CA	\$4,667,045,617	22,313,850	\$ 17.43	19,900,889	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
CO	\$744,711,417	2,667,781	\$ 23.26	2,260,377	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
CT	\$607,922,247	2,297,124	\$ 22.05	1,903,536	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
DC	\$160,599,478	897,188	\$ 14.92	749,280	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
DE	\$137,063,794	580,546	\$ 19.67	512,352	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
FL	\$2,076,135,956	8,706,114	\$ 19.87	7,455,197	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
GA	\$1,065,618,048	4,030,911	\$ 22.03	3,456,412	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
HI	\$164,398,950	702,087	\$ 19.51	611,542	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
IA	\$310,918,410	1,071,133	\$ 24.19	901,500	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
ID	\$163,101,114	510,080	\$ 26.65	461,299	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
IL	\$1,852,448,429	7,501,460	\$ 20.58	6,342,536	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
IN	\$931,775,380	3,267,591	\$ 23.76	2,803,469	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
KS	\$362,115,644	1,297,956	\$ 23.25	1,006,427	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
KY	\$647,418,090	1,853,294	\$ 29.11	1,892,733	\$0.75	\$1,413,211	\$16,958,529	\$ 0.59	\$ 1,120,539	\$ 13,446,452	\$ (3,512,067)	-21%		
LA	\$695,274,935	2,302,566	\$ 25.16	1,766,385	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
MA	\$944,467,759	4,161,973	\$ 18.91	3,381,579	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
MD	\$867,375,183	3,835,914	\$ 18.84	3,376,783	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
ME	\$240,961,022	706,507	\$ 28.42	729,922	\$0.22	\$159,585	\$1,915,023	\$ 0.07	\$ 49,632	\$ 595,583	\$ (1,319,440)	-69%		
MI	\$1,662,050,089	5,988,602	\$ 23.13	4,669,572	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
MN	\$563,610,881	2,061,041	\$ 22.79	1,741,613	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
MO	\$820,992,714	2,906,689	\$ 23.54	2,463,249	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
MS	\$573,521,648	1,311,948	\$ 36.43	2,631,967	\$6.31	\$16,603,820	\$199,245,840	\$ 6.15	\$ 16,196,840	\$ 194,362,085	\$ (4,883,755)	-2%		
MT	\$146,314,393	364,022	\$ 33.49	426,377	\$4.08	\$1,738,883	\$20,866,596	\$ 3.92	\$ 1,672,953	\$ 20,075,431	\$ (791,165)	-4%		
NC	\$809,827,032	2,936,146	\$ 22.98	2,441,193	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
ND	\$69,148,452	230,385	\$ 25.01	305,857	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
NE	\$252,415,269	717,869	\$ 29.30	1,007,266	\$0.89	\$897,763	\$10,773,160	\$ 0.74	\$ 742,010	\$ 8,904,124	\$ (1,869,036)	-17%		
NH	\$215,407,013	751,019	\$ 23.90	645,516	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
NJ	\$1,370,153,458	6,294,582	\$ 18.14	5,120,630	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
NM	\$257,567,235	840,461	\$ 25.54	762,993	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
NV	\$283,004,682	1,227,810	\$ 19.21	1,126,986	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
NY	\$2,779,904,320	11,787,338	\$ 19.65	9,033,429	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
OH	\$1,636,572,898	5,859,769	\$ 23.27	4,706,169	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		
OK	\$453,901,127	1,548,478	\$ 24.43	1,266,479	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%		

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OR	\$526,038,457	1,822,014	\$ 24.06	1,580,622	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
PA	\$1,591,371,459	6,552,768	\$ 20.24	5,526,452	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
PR	\$368,348,312	1,261,706	\$ 24.33	1,113,903	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
RI	\$150,466,668	619,653	\$ 20.24	404,419	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
SC	\$506,247,975	1,645,167	\$ 25.64	1,394,459	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
SD	\$82,407,805	237,846	\$ 28.87	387,013	\$0.57	\$218,906	\$2,626,867	\$ 0.41	\$ 159,062	\$ 1,908,743	\$ (718,123)	-27%			
TN	\$794,023,735	2,582,675	\$ 25.62	2,240,094	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
TX	\$2,915,628,840	11,408,902	\$ 21.30	9,648,495	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
UT	\$248,900,573	1,004,822	\$ 20.65	913,056	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
VA	\$1,035,675,534	4,068,157	\$ 21.22	3,442,450	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
VT	\$132,245,302	358,645	\$ 30.73	418,851	\$1.98	\$827,423	\$9,929,071	\$ 1.82	\$ 762,656	\$ 9,151,871	\$ (777,200)	-8%			
WA	\$804,747,979	3,182,747	\$ 21.07	3,939,194	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
WI	\$664,788,883	2,455,223	\$ 22.56	2,123,451	\$0.00	\$0	\$0	\$ -	\$ -	\$ -	\$ -	0%			
WV	\$314,451,471	848,005	\$ 30.90	1,066,371	\$2.11	\$2,246,865	\$26,982,375	\$ 1.95	\$ 2,081,972	\$ 24,983,667	\$ (1,978,708)	-7%			
WY	\$100,785,901	252,992	\$ 33.20	304,628	\$3.85	\$1,173,626	\$14,083,508	\$ 3.70	\$ 1,126,521	\$ 13,518,254	\$ (565,253)	-4%			
Total	\$40,572,414,759	157,791,098		137,796,415		\$28,967,473	\$347,609,672		\$ 27,237,053	\$ 326,844,642	\$ (20,765,031)	-6%			

Average	\$ 21.43
Two Standard Deviations	\$ 6.70
Benchmark	\$ 28.13